



HECM PROGRAM CHANGES, Part 1

Presented by:

Office of Single Family Housing

and

Office of Housing Counseling

Logistics

- **All lines will be muted until QA period**
- **Certificates will be emailed after training**
- **Attendees must be present throughout training to receive credit**
- **One hour CE for this class**
- **Two additional hours CE for completing both this class and next training**

Today's Presenters

Introduction

John Olmstead, HUD Office of Housing Counseling

HECM Program Changes

Philip Caulfield, HUD Office of Single Family Program Development

IBIS System Demonstration

Jerry Wagner, President, IBIS

Housing Counseling

John Olmstead, HUD Office of Housing Counseling

HECM Program Changes

Philip Caulfield

Office of Single Family Program Development

HECM Program Changes

- **Mortgagee Letter 2013-27:** *Changes to the Home Equity Conversion Mortgage Program Requirements*
- **Mortgagee Letter 2013-28:** *Home Equity Conversion Mortgage (HECM) Financial Assessment and Property Charge Guide*
- **Mortgagee Letter 2013-33:** *Home Equity Conversion Mortgage Program's Mandatory Obligations, Life Expectancy Set Aside Calculation, and Purchase Transactions*

Mortgagee Letter 2013-27

Policies effective for case numbers assigned on or after September 30, 2013

- Elimination of Standard and Saver Initial Mortgage Insurance Premium (MIP) Options and related Principal Limit Factor (PLF) Structure
- Return to a Fixed and ARM product with one set of PLFs
- Introduction of new Initial MIP and PLFs

Mortgagee Letter 2013-27

Policies effective for case numbers assigned on or after September 30, 2013

- Calculating Initial MIP based on the draw percentage of Principal Limit for all HECM transactions
- Limit on Disbursements at closing and during the First 12-Months of the loan
- Introduction of a new payment option - Single Disbursement Lump Sum payment option

Mortgagee Letter 2013-28

Policies effective for case numbers assigned on or after January 13, 2013

- Financial Assessment of HECM Mortgagors
- New options for payment of property charges

Mortgagee Letter 2013-33

Clarification and technical changes to Mortgagee Letters 2013-27 and 2013-28

Effective for case numbers issued on or after September 30, 2013

- Revised definition of mandatory obligations
- Revised definition of First 12-Month Disbursement limit
- Technical correction to calculation of principal limit increase
- Corrected Life Expectancy Set Aside calculation

Mortgagee Letter 2013-33

Special provisions for Purchase transactions

Effective immediately

Case numbers may be ordered prior to the issuance of a Certificate of Occupancy where:

- Mortgagee requests case number on or before 9/28/13
- Mortgagee obtains copy of bona fide sales contract and evidence of earnest money deposit executed and paid prior to September 3, 2013
- Mortgage must close on or before 3/31/14

Mortgagee Letter 2013-27

Important Definitions

NEW Initial Mortgage Insurance Premium Structure

- **0.50%** of the Maximum Claim Amount when the sum of the initial disbursement at closing or during the first 12 months is 60% or less of the Principal Limit
- **2.50%** of the Maximum Claim Amount when the sum of the initial disbursement at closing or during the first 12 months are greater than 60% of the Principal Limit

Mortgagee Letter 2013-27

Important Definitions

NEW Payment Option

- Current payment options are Term, Tenure, Line Of Credit, Modified term, Modified Line of Credit
- New payment option is Single Disbursement Lump Sum
 - available for Fixed rate and ARMs
 - Limited to a single disbursement at closing; no additional disbursements over life of loan except for set asides for repairs, servicing fees, property charges
- Cannot exceed the Initial Disbursement Limit

Mortgagee Letter 2013-27

Important Definitions

Initial Disbursement Limit

- Sets a limit on the amount that may be disbursed at closing or during the first 12 months for current payment options, or at closing for the new Single Disbursement Lump Sum payment option.
- Limit set at *greater* of 60% of Principal Limit or the sum of Mandatory Obligations plus 10% of the Principal limit
- Calculation based on initial principal limit established at loan origination

Mortgagee Letter 2013-27

Important Definitions

Initial Disbursement Limit (continued)

- Includes the following items:
 - Amount of Mandatory Obligations
 - Disbursement to mortgagor at closing
 - Additional disbursements to mortgagor during first 12 months (for current payment options)
- This amount determines the Initial MIP

Mortgagee Letter 2013-27

Important Definitions

First 12-Month Period

- Begins on the day of closing, and ends the day before the anniversary date of the day of closing
- If day before anniversary date is a Federal holiday, Saturday or Sunday, First 12-Month Period ends on the next business day
- Is not available for the Single Lump Sum Disbursement payment option

Mortgagee Letter 2013-27

Important Definitions

Mandatory Obligations

- Includes Mandatory Obligations defined in Mortgagee Letter 2013-27 *plus*
- Additional items as stated in Mortgagee Letter 2013-33
- For Traditional and Refinance transactions
 - Property tax and flood and hazard insurance payments required by the mortgagee to be paid at closing
 - Repair Set Asides

Mortgagee Letter 2013-27

Important Definitions

Mandatory Obligations

For Traditional and Refinance transactions (continued)

- Property tax and flood and hazard insurance payments scheduled for payment from the Property Charge Set Aside or from HECM proceeds during the First 12-Month Disbursement period.

Mortgagee Letter 2013-27

Important Definitions

Mandatory Obligations

For Purchase transactions

- All of the items required for Traditional and Refinance transactions
- The amount of the Principal limit that is advanced towards the purchase price of the subject property.

Mortgagee Letter 2013-27

Important Definitions

Mandatory Obligations Plus 10% of Principal Limit

- Additional 10% of Principal Limit is available to mortgagors with Mandatory obligations in excess of 60% of the Initial Principal Limit
- Mortgagor has the option of taking all or a part of the additional 10% - not required to do so.
- Mortgagor must inform mortgagee of their intent to use all or a part of the additional 10% prior to closing
- Mortgagor's decision may affect the amount of Initial MIP

Mortgagee Letter 2013-27

Important Definitions

Mandatory Obligations Plus 10% of Principal Limit (continued)

- At 50% Mandatory Obligations, mortgagor can take additional 10% and still be at 60% or less of the Principal Limit and Initial MIP will be 0.50%.
- At over 50% to 60% Mandatory Obligations, mortgagors taking additional 10% could push Initial Disbursement over 60% and Initial MIP will be 2.50%.
- If Mandatory Obligations exceed 60%, Initial MIP will be 2.50%. No reason not to take additional 10%.

Initial Disbursement Limit Example 1

Mandatory Obligation of 60% or less of the Principal Limit

Principal Limit:	\$100,000
Mandatory Obligations:	\$40,000
Repair Set Aside:	\$0
60% of the Principal Limit:	\$60,000

Initial Disbursement Limit Amount: \$60,000 (includes \$40,000 in Mandatory Obligations and \$20,000 to mortgagor)

The mortgagor can draw the \$20,000 exceeding Mandatory Obligations and Set Aside at loan closing **or** during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Borrower is limited to a single draw at loan closing for the \$20,000 that exceeds the Mandatory Obligations and Set Aside.

Initial Disbursement Limit Example 2

Mandatory Obligations in excess of 60% of the Principal Limit

Principal Limit:	\$100,000
Mandatory Obligations:	\$65,000
Repair Set Aside:	\$0
10% of Principal Limit:	\$10,000
60% of the Principal Limit:	\$60,000

Initial Disbursement Limit Amount: \$75,000, includes \$65,000 in Mandatory Obligations and \$10,000 to mortgagor.

The Borrower can draw the \$10,000 exceeding Mandatory Obligations and Set Aside at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$10,000 that exceeds the Mandatory Obligations.

Initial Disbursement Limit Example 3

Mandatory Obligations of 60% or less of the Principal Limit

Principal Limit:	\$200,000
Mandatory Obligations:	\$ 17,000
Repair Set Aside:	\$ 33,000
60% of the Principal Limit:	\$120,000

Initial Disbursement Limit Amount: \$120,000, includes \$50,000 in Mandatory Obligations and \$70,000 to mortgagor.

The Borrower can draw the \$70,000 exceeding Mandatory Obligations at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$70,000 that exceeds the Mandatory Obligations.

Initial Disbursement Limit Example 4

Mandatory Obligations in excess of 60% of the Principal Limit

Principal Limit:	\$200,000
Mandatory Obligations:	\$ 140,000
Repair Set Aside:	\$ 13,000
60% of the Principal Limit:	\$120,000

Initial Disbursement Limit Amount: \$173,000, includes \$153,000 in Mandatory Obligations and \$20,000 to mortgagor.

The Borrower can draw the \$20,000 exceeding Mandatory Obligations at loan closing or during the First 12-Month Disbursement Period.

Note: On the Single Disbursement Lump Sum Payment Option, the Mortgagor is limited to a single draw at loan closing for the \$20,000 that exceeds the Mandatory Obligations.

Mortgage Insurance Premium

- HUD will charge an Initial MIP of **0.50 percent** (0.50%) of the Maximum Claim Amount when the sum of the mortgagor's initial disbursement at closing and other required or available disbursements during the First 12-Month Disbursement Period is **60% or less** of the Principal Limit.
- HUD will charge an Initial MIP of **2.50 percent** (2.50%) of the Maximum Claim Amount when the sum of the mortgagor's initial disbursement at closing and other required or available disbursements during the First 12-Month Disbursement Period is **greater than 60%** of the Principal Limit.

Mortgage Insurance Premium

- Where the mortgagor elects to take an initial disbursement of 60% or less and HUD charges an initial MIP of 0.50%, the sum of the initial disbursement at loan closing and any additional disbursements during the First 12-Month Disbursement Period must not exceed 60% of the Principal Limit.
- The existing **annual MIP rate** of 1.25% will continue to be in effect for all HECMs.

Initial Mortgage Insurance Premium Calculation for Refinance Transactions

For all refinance transactions, mortgagees and counselors must use the formula below to determine the amount of initial MIP due to HUD.

Formula:

- (1) New MCA multiplied by *new initial MIP (%) = **NEW MIP**
- (2) Old MCA multiplied by old initial MIP (%) = **OLD MIP**
- (3) Subtracting the result of (2) from the result of (1) yields the MIP amount owed to HUD

** The new initial MIP percent (%) is determined by the borrower's initial disbursement of the 60% principal limit threshold at closing. If New MCA is less than the Old MCA, the amount owed can be greater than zero or if New MIP less the Old MIP is a negative number, the amount owed is zero.*

Initial Mortgage Insurance Premium Calculation Examples

Example 1

From HECM Saver to NEW MIP with an Initial Disbursement \leq 60% PL

- New MIP: $\$480,000 \times 0.50\% = \$2,400$
- Old MIP: $\$400,000 \times 0.01\% = \40
- Initial MIP Amount Owed to HUD: $\$2,360$

Example 2

From HECM Saver to NEW MIP with an Initial Disbursement $>$ 60% PL

- New MIP: $\$400,000 \times 2.50\% = \$10,000$
- Old MIP: $\$480,000 \times 0.01\% = \48
- Initial MIP Amount Owed to HUD: $\$9,952$

Note: If New MCA is less than the Old MCA, the amount owed can be greater than zero

Initial Mortgage Insurance Premium Calculation Examples

Example 3

From HECM Standard to NEW MIP with an Initial Disbursement \leq 60% PL

- New MIP: $\$480,000 \times .0.50\% = \$2,400$
- Old MIP: $\$400,000 \times 2\% = \$8,000$
- Initial MIP Amount Owed to HUD: \$0

Note: If New MIP less the Old MIP is a negative number, the amount owed is zero

Example 4

From HECM Standard to NEW MIP with an Initial Disbursement $>$ 60% PL

- New MIP: $\$480,000 \times 2.50\% = \$12,000$
- Old MIP: $\$400,000 \times 2\% = \$8,000$
- Initial MIP Amount Owed to HUD: \$4,000

Mortgage Insurance Premiums and Principal Limit Factors



Entities responsible for educating and informing prospective borrower(s) about FHA's HECM program requirements must use the new PLF table to calculate Principal Limit to disclose the amount of mortgage proceeds that will be available. Lenders will base the initial MIP and the Initial Disbursement Limit on the calculated Principal Limit amount. The new PLF table may be uploaded or copied from HUD's web site directly into any reverse mortgage technology system or tool used to support the HECM program.

The new PLF tables are accessible from the following website:

<http://www.hud.gov/offices/hsg/sfh/hecm/hecmhomelenders.cfm>

FHA will release Version 2.0 of the HECM Calculation Software to accommodate the new PLF table on **September 30, 2013**.

HECM Program Changes

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HECM Counseling

- At this time the HECM certificate and HECM Protocol have not been updated to reflect changes to the HECM program.
- Counselors should document their client notes that HECM program was explained to the borrower(s) based on ML 13-27 guidelines.
- IBIS updates for ML 13-27 in place on September 26, 2013
- IBIS updates for ML 13-28 in place before January 13, 2014

Existing HECM Counseling Certificates

- FHA will honor any valid counseling certificates that were issued prior to ML 13-27 being released.
- FHA is aware that some HECM loans may close after new policy changes take place. FHA encourages HECM counselors to identify counseling recipient(s) for whom this situation is applicable;
- Advise counseled eligible seniors that there have been HECM Program policy changes that may impact them;
- Offer eligible seniors an opportunity to receive updated HECM Counseling.
- Agencies cannot charge for counseling twice with grant money if the same borrower receives a counselor before and after the program changes.

HECM Counseling Suggestions

- Counselors should question prospective client to attempt to ascertain their property's condition and potential repair items for set aside amounts.
- Emphasize the substantial increase in upfront MIP when exceeding 60% of principal limits.

HECM Exam

As of January 1, 2014, HECM Exam questions will reflect:

ML 13-27

“Changes to the Home Equity Conversion Mortgage Program Requirements”

ML 13-28

“Home Equity Conversion Mortgage (HECM) Financial Assessment and Property Charge Guide”

Questions

For More Information

Office of Housing Counseling web page:
www.hud.gov/housingcounseling

Email questions or comments:
housing.counseling@hud.gov

FHA Resource Center

1-800-225-5342 (1-800 CALL FHA)